

DEVELOPMENT ALTERNATIVES/ FINNET (DAI/FINNET)
QUARTERLY REPORT (APRIL – JUNE 2000)
Contract No. 521-C-00-00-00019-00

CONTRACT OBJECTIVES

USAID Haiti Economics Group:

- Strategic Objective 1: Sustainable Increased Income for the Poor
- Intermediate Result 1.2: Small and Micro-entrepreneurs Economically Empowered

In the context of USAID Haiti's Strategic Objective 1 and Intermediate Result 1.2, DAI/FINNET's goal is to facilitate the development of a microfinance industry in Haiti to serve the working poor. DAI's three pronged approach is to develop industry infrastructure, to build sustainable microfinance institutions, and to promote an enabling environment through appropriate policies.

EXECUTIVE SUMMARY

On 1 April 2000 DAI/FINNET began work on its five year contract valued at USD 10.3 million. The first quarter of its contract was dedicated primarily to start-up activities. This included preparing both a five year workplan and an annual workplan; shifting staff, inventory, and work activities from PRET to FINNET; updating and upgrading premises and systems; and formalizing subcontracts with Desjardins and AGIR. At the same time, technical assistance continued to be delivered to PRET's partners and implementation of the new workplans began.

Different from PRET, DAI/FINNET's directed technical assistance will only be provided to those microfinance institutions that have signed technical services agreements. These agreements will include commitments by the MFI to adhere to certain standards, to undertake specific actions, and to contribute to FINNET's overall objectives. It is expected that there will be no more than eight of these key partners. During the first and second quarters, institutional assessments of potential partners will be undertaken and TSAs negotiated with those selected as partners. The wider community of MFIs will receive assistance through general training sessions, new product development, new financing instruments, policy promotion, networking, information forums, etc.

DAI's dual long-term objectives are, first, to have at least five sound, sustainable institutions well established in Haiti to serve the largest client base possible and to provide models for other MFIs. The second is to have the various components of an industry infrastructure in place to provide the framework for the perennial development of the microfinance industry and its member MFIs.

DAI/FINNET will benefit from having most of the same team as PRET. Robert Dressen is the chief of party and provides technical assistance to commercial banks, leads initiatives in new financing instruments, and closely follows work on credit bureaus, regulation and supervision, and other selected topics. Alexia Latortue is in charge of institution building activities, management of relations with our key partners, training, developing insurance products, the resource center, and other selected projects.

She is assisted by Osé Pierre, who has principal responsibility for coordinating our field activities and developing the CARM concept. There is a CARM coordinator in each of the CARMs in Les Cayes, Pignon, and Port de Paix. Ulrick Jean Claude coordinates training activities, develops tool kits and other materials for training, and helps in some of our information dissemination work.

Tom Lenaghan is scheduled to work with the project for approximately six months to follow through on work already begun on the credit information exchange for bad debtors and credit bureaus, legal reform including regulation and supervision, research on agricultural loan products, periodic updates of the MFI database, and organization of a national conference.

Milhouse Lubin is the financial and administrative manager. She directly manages seven project support staff.

Two sub-contractors are also an integral part of the DAI/FINNET team. Développement International Desjardins has been contracted to develop up to 25 credit unions in the Southeast and the Northwest plus a few in the South. These are all areas under-served by solid credit unions. AGIR has been contracted to provide local technical assistance to key partners and to perform other technical support tasks for MFIs.

INSOL, a local information technology firm, has been engaged to continue the development of the software SIFWin, a portfolio management package for MFIs.

DAI/FINNET occupies PRET/DAI's former offices. By making minor leasehold improvements to increase office and meeting space and updating information systems and electrical systems, DAI/FINNET has found a cost effective and efficient way to house its operations. To better organize certain aspects of project management, TAMIS, a proprietary software of DAI for project management, has been installed. It is geared to facilitate general administrative work and is integrated directly into the workplan submitted to USAID and to reporting requirements to USAID.

GENERAL ACTIVITY REPORT:

The report on our activities are divided into three parts which correspond to the three principal segments of our workplan: industry component, retail component, and financing component.

The major theme of DAI/FINNET for Year One is “Standards”. It will be intertwined among all three components. Standards will be one of the topics of the national conference, reinforced by round table discussions, training sessions, technical notes, and directed technical assistance. Each institution must establish appropriate standards, accurately measure them, and effectively manage by them. Indeed, the same applies for the industry as a whole. In so doing, the performance of each institution will be strengthened as well as that of the industry.

INDUSTRY COMPONENT:

Legal/ Regulation & Supervision:

- PRET’s partner, the KNFP, has continued to meet and plan a strategy on how to present its recommendations for legal reform regarding classification and registration of MFIs and their subsequent regulation and supervision to the decision makers in the Central Bank, the Ministry of Finance, and legislative bodies. The basis of their recommendations is the work done by HORUS for PRET. DAI/FINNET continues to advise them.

Credit Information Exchange & Credit Bureau:

- A list of bad debtors continues to be prepared each month. There are eight participating MFIs from the metropolitan Port au Prince area. The newest member is SOGESOL. The list now includes over 2,600 borrowers and continues to be extremely useful to the MFIs and is proving to be a good way to educate clients about the importance of repaying their loans. A task has begun to identify a third party who can assume responsibility for gathering and collating the information for a fee to be paid for by members. In the meantime, DAI/FINNET will remain the principal sponsor.

Information:

- The documentation resource center has been newly catalogued. It includes over 1,000 documents. Internet access is also available. A dedicated TAMIS Resource Center has been created to permit user friendly access to the Center’s documents. Design of a website has begun which will post information on FINNET and on microfinance in general.
- An updated database was finalized using data from 31 March 2000. 95 institutions were polled of which approximately two thirds are credit cooperatives. Mutual solidarity programs were included for the first time. The 95 institutions have over 57,000 borrowing clients with USD 25.6 million in loans. They have over 121,000 savers with USD 18.2 million in savings.

Round Table Discussions:

- The first of a series of round table discussions for managers of MFIs (Table Ronde des Décideurs de la Microfinance) was held in conjunction with CLED's Speakers Series that featured Nancy Barry, the President of Women's World Banking. The topic of this first encounter was "Integrating Microfinance Institutions into the Financial System". There were 16 attendees from 14 institutions. One round table discussion will be scheduled each quarter.

Regional Microfinance Support Centers (CARMs):

- A comprehensive strategy for the future of the CARMs is being developed. In the meantime, a new supervisor is being recruited for the CARM in Les Cayes. PRET's two contractual temporary staff in Port de Paix and Pignon have been hired as permanent staff. For the time being, their principal tasks have been to provide technical assistance to FODEPE and ACLAM. By the end of the next quarter, it is anticipated that the CARM strategy and implementation will be finalized.

National Conference Planning:

- November 15-16 has tentatively been set as the date for the national conference, depending on the availability of guest speakers. Claudio Gonzalez-Vega of the Rural Finance Program at Ohio State University has been contacted to lead discussions on regulation and supervision together with Jacques Trigo from the Superintendency of Banks in Bolivia. Jennifer Isern from CGAP has also been approached to measure her interest to lead discussions on performance standards. The tentative format is one morning of formal presentations followed by panel discussions in the afternoon. The following morning would be dedicated to in-depth discussions for selected audiences on the subjects of standards and regulation/supervision. Nothing has been confirmed as of yet.

Client Impact Assessment:

- During the quarter, several meetings were held with USAID to discuss results indicators. Those agreed are: number of loans (disaggregated by gender), value of loans, and number of sustainable MFIs. Many other indicators will be measured in addition to those reported to USAID/W. A focus of the data gathered will be of the impact of microfinance loans on household income. To avoid a costly process which historically hasn't always delivered meaningful results; DAI/FINNET's strategy is to train MFIs to do their own client impact assessments. Research is presently being done on methodology and hopefully the first assessments can be done within the next six months.

RETAIL COMPONENT:

- **Institutional Assessments:**

The tool to undertake Institutional Assessments of our potential key partners has been developed. The first assessment to be undertaken is COD/EMH. Those for ACLAM, ACME, FINCA, FODEPE, FHAF, and MEDA are scheduled to begin during the next quarter. For those institutions that are identified as acceptable partners of DAI/FINNET, a customized Technical Services Agreement will be drawn up and negotiated. It will include performance criteria for the MFI as well as other commitments. On DAI/FINNET's side, the TSA will outline the services which will be provided. Among them are training services that will be tailored based on a training needs assessment.

- **Micro Insurance:**

DAI/FINNET has continued the work begun by PRET/DAI in developing a micro insurance product. During the quarter, several steps forward have been made. First, two representatives of COD/EMH attended the ILO micro insurance training in Turin, Italy. FINNET provided full funding for the person COD/EMH hired to manage the micro insurance development process for them. FINNET also partially funded COD/EMH's national credit coordinator. Second, arrangements have been made for Olivier Louis dit Guerin to return to Haiti to work for approximately a month to develop a market survey and educational tools in preparation of a test of a micro insurance product tailored for institutions with village banks. Third, DAI/FINNET has met several times with MSH and presented a brief exposé of micro insurance to its network of HS-2004 healthcare providers. Fourth, DAI/FINNET is organizing a round table discussion for MFIs with individual loans methodology. MFIs will join with representatives from health care providers and private insurance companies to pursue how insurance products may be best delivered to micro entrepreneurs.

- **New Product Development:**

Housing: Robert Dressen attended a workshop in Washington sponsored by the IDB on the microfinance of housing. The microfinance of housing is still in the pioneering stages, although several initiatives have been tried around the world. Many of these experiences were presented. Demand is high for these kinds of loans. Probably over 20% of proceeds of loans to micro enterprises are already diverted to housing needs. In Haiti, given the lack of the right legal structure and no national housing policy, the way to proceed is for strong MFIs to launch pilot programs for home improvement loans. BUH and Capital Bank have been contacted to discuss this possibility.

Agriculture: Following up on work begun under PRET, a representative of COD/EMH was sponsored to visit Niger to study a FAO managed credit program which grants loans based on agricultural produce stored in a warehouse (warrants). COD/EMH has tried unsuccessfully to finance agricultural production and storage. A report of this trip is available at DAI/FINNET.

- **FODEPE:**

Pending an institutional assessment, DAI/FINNET has continued to advise FODEPE on its reorganization. Through AGIR we have assisted in rewriting policies and procedures. We have provided on-the-job training to its staff and have assisted in collecting arrears and retraining village banks in the Northwest and Center. The institution still faces major problems.

- **Credit Cooperatives:**

Desjardins has had a team of experts prepare its workplan and budget. Included in this work were field visits to the Southeast, South, and Northwest. They already have a list of existing credit cooperatives that will be evaluated once their activities are completely launched. They have trained new staff and arranged for existing staff to be assigned FINNET responsibilities. Maurice Rigaud, PRET's former coordinator for credit cooperatives in the Southeast, has been hired by Desjardins to work for them in the same area.

- **Coordination with Freedom from Hunger:**

DAI/FINNET has been cooperating with Freedom from Hunger, the contractor in charge of UNDP's Microstart Program. We are working together with our common partners on MIS issues. Plans are underway to jointly sponsor the consultancy of Graham Perrett to advise ACME and FONKOZE on Internal Controls and to assist AGIR to develop a generic internal controls product for other MFIs.

- **ASSET: Belle Fontaine:**

DAI/FINNET has helped ASSET identify a microfinance partner to start a village bank program in the Belle Fontaine area. COD/EMH has conducted initial site visits and is interested in proceeding to the next step.

- **Training:**

Business Planning III: The third and final module of Business Planning was held in April. This session on financial planning complemented the first two on strategic planning and operational planning. 36 people from 18 institutions attended. Following the training sessions, Graham Perrett the trainer, spent three days working one-on-one with ACLAM and FODEPE. With FODEPE he discussed its MIS, loan documentation, managerial reports, write-off policies, accounting software, and a compensation system for field staff. With ACLAM, he reviewed their business plan and discussed bad loan provisioning, write-offs, and cashflow management.

Village Bank Orientations: During the quarter DAI/FINNET also held two training sessions on the Principles of Village Banking for MEDA's credit officer trainees. In total, 41 persons attended the sessions.

Peace Corps: In May DAI/FINNET made a presentation to the Peace Corps training class on different microfinance programs in Haiti and different methodologies.

FINANCING COMPONENT:

Within the Financing Component, year one's activities are focused on implementing the Small Grants Program, providing technical assistance to SOFIHDES, promoting commercial bank lending to MFIs, and seeking opportunities for USAID's DCA program. The first quarter's progress is as follows:

- **DAI/FINNET Small Grants Program:**

Procedures for DAI/FINNET's Small Grants Program were prepared and submitted to USAID for approval on 8 June. No response has been received. In the meantime, the USD 300,000 that DAI had reserved for the grants program in its budget was been reduced to USD 30,000 for the time being. USAID requested that the other USD 270,000 be distributed to FINCA Haiti. DAI has received the assurance that these funds will be replaced. It is to be remembered that the Small Grants Fund is to provide financing to MFIs who are key partners of DAI/FINNET for activities complementary to the technical assistance being provided. For example, a grant would finance the purchase of a computer software that improves an MFI's accounting system.

- **Special Grant to FINCA from DAI:**

A special grant of USD 80,000 was made available to DAI to pass on to FINCA Haiti from funds outside of the FINNET contract. These funds are destined to partially finance operating expenses. Distinct from the FINCA grant, an amount of USD 20,000 was also earmarked to continue the development of a micro insurance product for MFIs with village bank programs and also credit cooperatives.

- **Guarantee Claims from Commercial Banks:**

As a part of its work, DAI/FINNET assists SOFIHDES in the management of the Financial Institutions: Loan Guarantee Program. During the quarter several claims were processed and paid. They are as follows:

- **BUH:** USD 70,287 claimed in October, paid in June. USD 223,224 claimed in April, paid in July. Balance of original USD 500,000 guarantee, USD 164,872. The balance is to expected to be claimed before December 2000. It is to be noted that BUH has made cumulative loans of more than USD 15 million and presently have over USD 5 million outstanding to approximately 3,400 clients.

- **SOGEBANK:** USD 201,136 claimed in March, paid in July. Balance of USD 315,000 guarantee, USD 56,370. The balance is expected to be claimed with the next quarter. It is to be noted that the entire amount of the ex-BIDC portfolio is non-performing. Responsibility for recoveries has been assigned to SOGEBANK's new microfinance subsidiary SOGESOL.

- **SOFIHDES:**

FINNET staff spent a significant amount of time during the first quarter of the FINNET contract in assisting SOFIHDES to develop procedures for the Microfinance Innovation Fund (MIF) and begin processing awards approved during the first MIF review committee meeting in February. A second review committee meeting was held in May. To date, a total of 10 awards have been pre-approved by the committee for detailed negotiation between SOFIHDES and the grantee (with counseling from FINNET) out of a total of 65 applications submitted. Of the 10 awards, SOFIHDES has signed agreements and made disbursements to two recipients. The following table recapitulates grants that have passed the pre-approval stage.¹ Disbursement has begun for CODE and KOFIP.

Capitalization Awards

SADA Kredi (CBO)	\$50,000
CODE (CBO)	\$50,000
GTIH (MFI)	\$190,000
COD-EMH (MFI)	\$165,000
PWOFOD (MFI)	\$150,000

Institutional Capacity Building Awards

CECCOMH (credit union)	\$7,000
KOFIP (MFI)	\$22,000
IICA (MFI)	\$50,000

Special Projects

GRAIFSI (MFI)	\$50,000
FONKOZE (MFI)	\$36,775

Total Estimated Pre-Award Approvals \$770,775

Administration of MIF awards has proven to be somewhat cumbersome and slow. Of the five awards granted pre-approved during the first review committee, only one has received a disbursement five months later.

¹ Amounts are estimated based on initial applications. Final award commitments are the subject of negotiations between SOFIHDES and the grantee and may change between first application and the signing of the grant agreement.

Delays have arisen because of two problems. The first of these is the long process of approval and negotiation of the sub-contract between SOFIHDES and AGIR, the firm chosen to conduct the institutional evaluations required in the capitalization award process. The second source of delays is related to the processing of SOFIHDES's requests for cash advances by USAID.

For the MIF to become an efficient mechanism that is really capable of fulfilling its original vision, it is critical that the SOFIHDES-AGIR subcontract negotiation process rapidly leads to a signed contract that will allow SOFIHDES to contract for AGIR's services. It is also critical that USAID and SOFIHDES work out an efficient, streamlined process for handling cash-advance requests.

In the next six to nine month period, two other issues are likely to require consideration:

- **Rate of draw-down on MIF funds.** Should all the pre-awards move through to disbursement as projected above, 30% of the total MIF (\$2.4 million) will have been committed in the first six month's of the MIF's operation. By the end of 2000, 54% (\$1.3 million) may be committed. As most of these commitments will be in the capitalization window, which was estimated at only \$740,000 for the life of the MIF, SOFIHDES will almost certainly need to exceed this amount and reallocate fund from the other two windows to the capitalization window.
- **Consideration of applications from the Cooperative Sector.** Twenty-three of the 65 applications to the MIF to date have been from the cooperative sector. Of these, 13 have been for training awards under the institutional capacity building window and 6 for special projects. Most of the requests are weak and often for purposes not allowed under the MIF. To streamline the initial review process, new eligibility guidelines have been drafted to limit the pool of eligible cooperatives from which applications will be considered.

APPENDIX A: SMALL AND MICRO ENTERPRISE FUND (USD 1,650,000)
(Follow-up Reporting on PRET/DAI Activities – For Information Only)

SUMMARY:

Program	Commitment	Uses of Funds
NBI Capitalization Fund	USD 835,000	USD 835,000
Financial Institutions: Loan Guarantee Fund	USD 815,000	USD 594,000 paid in claims. USD 221,000 in gtees. O/S
Total	USD 1,650,000	USD 1,650,000

SME FUND: *OUTSTANDING LOANS* Made by Intermediaries as of 30 June 2000

Institution	PRET Commitment in USD	Portfolio in USD	# of Clients
<i>Loan Guarantee</i>	(Original Amount of Gtee.)		
BUH	500,000	5,185,000	3,382
<i>NBI Capital</i>	(Amount of Grant + Deposit)		
ACME	350,000	653,000	2,247
FODEPE*	70,000	280,000	2,890
ACLAM	60,000	287,000	3,409
FINCA	155,000	106,000	1,594
Sub Total	835,000	1,326,000	10,140
GRAND TOTAL	1,650,000	6,507,000	13,522

NB: * FODEPE statistics are those for 31 March 2000. Sogebank and Servipro are not included on the list as they have both ceased microfinance activities.